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THE RESULTS OF THE EUROPEAN WAR ON AMERICA'S FINANCIAL POSITION

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We hear a good deal nowadays about dollar exchange as applied to the financing of transactions arising from our trade with foreign countries. A year ago this was almost an unknown expression, and, generally speaking, long bills drawn against international transactions were in sterling, in reichsmarks or in francs. Our great incorporated chartered banking institutions were not permitted to engage in the acceptance business, and when a cargo of grain or cotton left an American port for Liverpool, drafts against the shipment were drawn in sterling, or when a vessel laden with dyestuffs or jute bagging cleared from Bremen or Hamburg for Boston or Savannah, credits covering the invoices were expressed in reichsmarks, so that the foreign banker exacted his toll in both directions. In April, 1914, however, the New York legislature, by statute, permitted banks incorporated by that state to accept drafts and bills of exchange drawn against not only shipments of goods to and from foreign countries, but against domestic transactions as well. The federal reserve act, which was enacted by Congress in December, 1913, contained a clause permitting national banks, in transactions involving the importation or exportation of goods, to accept for amounts not exceeding 50 per cent of their capital and surplus; and by a recent amendment, this limitation has been extended to the full amount of capital and surplus. Figures recently compiled show that trust companies in New York State and the national banks have outstanding \$117,000,000 of acceptances.

The development of the American acceptance business has undoubtedly been promoted by the European war, and the progress already made by a large New York City national bank toward establishing foreign branches under the provisions of the federal reserve act indicates a disposition on the part of the national banks to supplement the efforts of the trust companies that have already

established foreign branches and engage in financial operations of an international character. The most inviting field for foreign branches at present seems to lie in the West Indies, in the Canal Zone and in the South American countries. The recent conference with South American financiers held in Washington is an evidence of the interest that our government is taking in the development of closer trade and banking relations with our South American neighbors. While we have for years been large purchasers of South American commodities, such as coffee, rubber, nitrate and hides, our exports to those countries have been negligible as compared with the trade controlled by European nations. The deplorable conditions now existing throughout Europe have not only given us an opportunity of taking over a substantial part of this business, but have almost compelled us to arrange to do so, besides opening the way for an extension of our trade with Europe and with the Orient.

Shortly after the outbreak of the war last summer, international balances against us on current account were ascertained to be around \$450,000,000, and it was estimated at the same time that the total value of American securities held abroad was probably not less than \$6,000,000,000. Notwithstanding the serious depression in cotton, which fortunately proved temporary, the loss in that staple was more than made up in the total volume of our trade by the high prices received for our exports of foodstuffs. The balance against us was in a few months entirely wiped out, and large balances in our favor began to accumulate. Certain lines of industry in this country, such as the manufacture of munitions of war and accessories, have received a tremendous impetus. Reports to the department of commerce indicate, according to a statement made by Secretary Redfield, total exports for the current fiscal year of two and three quarter billion dollars, with a resulting trade balance in our favor of about one and a quarter billions. This balance, however, is due to our smaller volume of imports, rather than to increased exports. For the past nine months our excess of exports over imports has amounted to \$719,000,000, and it is thought possible that our net trade balance for the calendar year 1915 may be as high as \$2,000,000,000, or about four times what might have been expected under normal conditions. As against this all the belligerent powers have been obliged to float temporary loans for enormous sums, to which there is reason to believe substantial subscriptions

have been made in this country, and should the war continue for several months longer, it is thought that American subscriptions will undoubtedly assume far greater proportions. The removal of stock exchange restrictions and the notable rise in the market value of standard stocks and bonds which has been in evidence for some weeks past, together with the breadth of the market, have given foreigners an excellent opportunity to dispose of their American securities, and while there may have been some purchases for European account, it seems certain that sales by foreigners have greatly exceeded their purchases; some authorities contending that since the beginning of the war, net sales have been made in our market for foreign account of about 2,000,000 shares of stock and possibly \$300,000,000 of bonds; these figures, however, are probably exaggerated.

Europe has been selling our stocks and bonds steadily but only in relatively small amounts. It was carefully estimated a month ago that European sales were averaging about \$1,000,000 a day. It is believed that the temptation of rapidly risen prices has led to somewhat heavier selling than within the last week, but even if the European liquidation averaged steadily \$2,000,000 a day it would fall far short of the current excess of exports, which for the last three months has averaged about \$5,000,000 a day. The invisible balance against us is as undetermined as the amount of Europe's holdings of our securities, but it can hardly be \$2,000,000 a day and may be less than \$1,000,000. If it were \$2,000,000 and Europe was selling us each day that amount of securities, we would still be accumulating net credits at the rate of \$1,000,000 a day through our excess of exports over imports.

It is, of course, impossible to predict the duration of the war or its ultimate results, but there are several elements that will enter into our financial position at the close of the war. One is the duration of war, and another is the terms of peace. Should the war be brought to a close in the near future on the basis of a "draw," the demands upon capital would, of course, be much less than would be the case if it is fought to a finish. In that event, our position would be somewhat different should war settlements be made by cession of territory only, than it would be should large cash indemnities be imposed by the victors upon the vanquished, which would involve complicated readjustments of capital. Some authorities hold that the European countries have much greater wealth than is generally supposed, and that their recuperative powers are correspondingly greater, but it seems clear that no nation can withstand for a very

long period of time the tremendous loss of life and property which has characterized the present conflict. The first effects of a peace that follow a great war are by no means a sure indication of what the ultimate results will be, and sometimes it happens that the financial status of nations that have not been engaged in the war is disturbed almost as seriously as that of the participants. When the long series of Napoleonic wars had been brought to a close in 1814 by the exile of the French emperor to Elba, there was a pronounced trade revival in England which came to a sudden halt upon Napoleon's return to France in March, 1815. His final defeat at Waterloo resulted in a great advance in British Consols, but the United Kingdom entered at the same time into a period of industrial and commercial depression which lasted several years. A similar depression was also experienced in this country, which had, since 1812, been engaged in a war with England. Our Civil War witnessed a destruction of life and property and an accumulation of debt somewhat parallel to that now being experienced by European belligerents, and it was also accompanied by a marked inflation of the currency, under the stimulus of which the dominant section experienced a trade revival accompanied by an era of railroad building which continued until 1873. Our Civil War was the source of serious inconvenience to Great Britain, which country was dependent upon the South for the greater part of its cotton supply, yet England was prosperous during the time of our conflict and during the year succeeding its close, so that not until the crash which followed the failure in 1866 of the London firm of Overend, Gurney & Co., did she face the greatest crisis she had experienced in two generations. The war indemnity imposed upon France by Germany in 1871 of 5,000,000,000 francs, made it necessary for French investors desiring to subscribe to the indemnity loan to become heavy sellers of securities in London and elsewhere. British markets, as well as French, were seriously affected, so that within a few months it became impossible to sell American securities abroad, maturing loans were called, and many great railroad enterprises were halted during their construction. Thus the indemnity to Germany was a powerful contributing cause to the great crisis of 1873. Our affair with Spain in 1898, is, according to modern standards, hardly worthy of being dignified with the name of war. It, however, marked the termination of the years of depression which

followed the panic of 1893, and at its conclusion began one of the greatest expansive periods of modern history, which, suffering no serious interruption either from the Boer war or from Russia's war with Japan, came to a sudden end in the fall of 1907.

We should not forget that, although we have passed through no periods of pronounced activity since 1907, there is a strong temptation today towards inflation in this country as well as in Europe, where inflation is a result of war financing. The loans of our national banks were on March 4, according to reports to the comptroller of the currency, about \$142,000,000 greater than they were on the same date in 1914, which were in turn greater by about \$232,000,000 than appeared in corresponding statement in 1913. Restoration of peace will necessarily bring about many readjustments. Demand for war material will cease, and in its place will spring up a demand for the commodities of ordinary trade, and particularly for those materials used in constructive work and repairs. Great Britain, Germany and France will use every effort to recover lost trade and will endeavor to avail themselves of American markets, our margin of exports over imports will shrink, and as war debts are permanently funded, securities will doubtless be sold by citizens of countries lately at war to enable them to subscribe to their national loans. The volume of these sales will be governed partly by security prices and by trade balances, and the effect upon our money market will depend upon the provision we have made in advance to offset or to finance these purchases.

While we have now in operation a sound currency and banking system, we must not permit ourselves to be lulled into a false sense of immunity from all trouble, or to feel that we have a license to disregard well-established principles. We must be discreet, we must resist any tendency toward inflation, and we may be sure, that by avoiding a wild temporary boom which would certainly result in a collapse later on, this country will be in a far better position to reap throughout a long series of years to come the benefits which should accrue to it as the only great world power not engaged in the war. By adhering to this course, by exercising patience and self-control and by adopting a policy of wise statesmanship in husbanding our resources and applying them only in directions which will tend towards bringing the best ultimate results, not to the individual but to the nation as a whole, our position upon the reestablishment

of peace will be far stronger than it was before the war began. We shall be able thereby to hold and to follow up advantages gained, and shall reach ultimately not merely a second or third but a prominent and commanding place in the field of international finance.